



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

To open, right click on "Select a bill", select Worksheet Object/Edit. To exit, click outside the spreadsheet.

Bill #	Bill
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Title:	DOLI Apprenticeship Credit
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Primary Sponsor:	Sponsors Name
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Status:	
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- | | | |
|--|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input checked="" type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

To open the fiscal Summary spreadsheet, right click on the spreadsheet, select Worksheet Object/Edit. To exit the spreadsheet, click outside of the spreadsheet.

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Expenditures:				
General Fund	\$20,575	\$45,800	\$43,106	\$44,722
State Special Revenue	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$784,000)	(\$833,000)	(\$882,000)
State Special Revenue	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u><u>(\$20,575)</u></u>	<u><u>(\$829,800)</u></u>	<u><u>(\$876,106)</u></u>	<u><u>(\$926,722)</u></u>

Description of fiscal impact: (In a few short sentences, describe.)

This bill would establish a credit against individual income tax or corporate income tax for employers who have apprentices in an apprenticeship program registered with the Department of Labor and Industry. If the number of apprentices is close to the highest level in recent years, the cost to the general fund would begin at about \$0.8 million in FY 2017 and increase to about \$1.0 million by FY 2021. If the Department of Labor and Industry is successful in expanding apprenticeship programs, the cost could be higher. However, the Department of Labor and Industry would have discretion to grant individual credits of up to \$1,000, so that, if the department grants individual credits of less than that amount, the cost could be lower.

FISCAL ANALYSIS

Assumptions:

1. This bill would allow employers who participate in a registered apprenticeship program a credit against either individual income tax or corporate income tax of up to \$1,000 for each apprentice who has completed the probationary period. The amount of the credit in each case would be determined by the Department of Labor and Industry. If a taxpayer claimed credits that were more than their tax liability, the excess would not be refunded, but would be carried forward for up to four years.
2. The number of apprentices in registered apprenticeship programs varies over time, with employers being more willing to offer apprenticeships when the economy is growing and they have difficulty finding skilled employees and less willing to offer apprenticeships during downturns in the economy. Over the last ten years, the number of apprenticeships has varied from about 950 to almost 1450. In late 2014, there are approximately 1,100. This fiscal note assumes that, with continuing demand for construction workers in eastern Montana and with the Department of Labor and Industry's ongoing effort to expand the program to other trades, the number of apprentices will be 1,400, which is near the top of the historic range.
3. Apprenticeships typically last three to four years and have a six-month probationary period. Thus, at any time, approximately 30% of apprentices are still in their probationary period. Thus, there will be approximately 980 $((1-30\%) \times 1,400)$ apprentices for whom a credit will be claimed. This fiscal note assumes that all credits would be \$1,000. The total amount of credits claimed would be \$980,000. If the average individual credit amount is less than \$1,000, the total amount of credits would be proportionally lower.
4. Some employers who claim the credit will not be able to use the credit in the current year because they have tax liability less than their credits. These employers will carry their credits forward. The share of credits carried forward will vary from year to year, depending primarily on the business cycle. This fiscal note assumes that 80% of credits claimed each year will be used that year, and the remainder will be used evenly over the next four years.
5. This bill would go into effect for tax year 2016. Credits would first be claimed on tax returns for 2016 filed in the spring of 2017, which is in FY 2017. General fund revenue for FY 2017 would be reduced by \$784,000 $(80\% \times \$980,000)$.
6. In following fiscal years, there would be new credit claims, and credits carried forward from previous years would be used. For FY 2018, there would be \$784,000 of tax liability offset by new credits and \$49,000 $(\frac{1}{4} \times (\$980,000 - \$784,000))$ of tax liability offset by credits that were carried forward from the previous year. The total reduction in general fund revenue would be \$833,000. For FY 2019, the total reduction would be \$882,000. Revenue reductions would be \$931,000 for FY 2020 and \$980,000 for FY 2020 and following years.
7. The Department of Revenue would need an additional 0.5 FTE tax examiner beginning in FY 2017 to process and verify claims for this credit. Personal services costs would be \$35,903 in FY 2017, \$36,567 in FY 2018, and \$37,245 in FY 2019. Annual operating costs would be \$6,599 in FY 2017, \$6,699 in FY 2018, and \$7,801 in FY 2019. One-time costs to set up a new employee would be \$3,298 in FY 2017. Changes to tax returns would be made as part of the annual update process with no additional costs. One-time costs to add the credit to the department's data processing systems would be \$20,575 in FY 2016.
8. It is unknown what impact the implementation of this tax credit would have on the total number of registered apprentices in Montana. An increase to the total number of apprentices would result in a larger number of Montanans with increased wages, giving rise to an increase in general fund revenue through income taxes collected, which is not reflected above.

The National Conference of State Legislatures (NCSL) performed a review of apprenticeship tax credit programs in July 2000. At that time, the state of Arkansas provided info to NCSL reporting a 10% increase in the number of apprentices after implementation of an apprenticeship tax credit. The state of South Carolina implemented an apprenticeship tax credit in 2007. In 2008, they reported a 25% increase in the number of active registered apprentices. Since that time, South Carolina has reported an approximately 600% increase in the number of apprentices.

A 2013 study performed by the Upjohn Institute for Employment Research indicated that the average increase in lifetime earnings per participant in an Apprenticeship Program was \$436,053, with an average lifetime increased tax liability of \$113,374 per participant.

As estimate of what this increase in revenue would look like, assuming a 10% increase in the number of apprentices for each of the first three years of the credit is detailed below. This estimate assumes that, at the time of passage, there will be 1400 apprentices, equally split between years 1 through 4 of their apprenticeship. It assumes that the average starting wage and average ending wage for apprentices will remain at their current rates of \$15.50 for the average starting wage and \$25.35 for the average ending wage. It assumes that apprentices had an average wage of \$8.50 per hour prior to beginning their apprenticeship, and takes that wage into consideration when calculating tax liability increases. The estimate also assumes that 2013 tax rates will remain effective through 2019, and that all apprentices are part of a four year apprenticeship program.

2016	2017	2018	2019
140,649.60	443,912.23	821,305.44	1,100,168.60

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	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>
<u>Fiscal Impact:</u>				
FTE	0.00	0.50	0.50	0.50
<u>Expenditures:</u>				
Personal Services	\$20,575	\$35,903	\$36,407	\$36,923
Operating Expenses	\$0	\$6,599	\$6,699	\$7,799
Equipment	\$0	\$3,298	\$0	\$0
Benefits	\$0	\$0	\$0	\$0
Transfers	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$20,575	\$45,800	\$43,106	\$44,722
<u>Funding of Expenditures:</u>				
General Fund (01)	\$20,575	\$45,800	\$43,106	\$44,722
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$20,575	\$45,800	\$43,106	\$44,722
<u>Revenues:</u>				
General Fund (01)	\$0	(\$784,000)	(\$833,000)	(\$882,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
TOTAL Revenues	\$0	(\$784,000)	(\$833,000)	(\$882,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$20,575)	(\$829,800)	(\$876,106)	(\$926,722)
State Special Revenue (02)	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures:

- 1.
- 2.
- 3.

Long-Term Impacts:

1. Assuming that the number of apprentices continues to be 1,400 and that the average credit is \$1,000, general fund revenue would be reduced by \$931,000 in FY 2020 and by \$980,000 in FY 2021 and later years.
2. The number of apprentices has tended to be lower during economic downturns. In recessions, the cost of the credit is likely to be lower.

3. If the Department of Labor and Industry is successful in expanding the apprenticeship program and increasing the number of apprentices, the revenue impact would be higher.
4. This bill would give the Department of Labor and Industry discretion to grant individual credits of \$1,000 or less. If the average credit is less than \$1,000, the cost of the program would be lower. This would also give the Department of Labor and Industry some ability to control to overall cost of the program.

Technical Notes:

- 1.
- 2.
- 3.

Sponsor's Initials

Date

Budget Director's Initials

Date

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